We tame the predators of the seas
The zebra mussel, which is no larger than a fingernail, is entirely innocent. But as soon as it gains a foothold in other marine environments, it becomes an aggressive predator. This transplantation can occur via ballast water in ships. When the water is released, the ship also releases microorganisms of the mussel and other dangerous species into entirely new waters. There, they can increase and eventually destroy the local eco system. Alfa Laval has developed an innovative new concept – Pure Ballast – that eliminates this growing problem. This is a fully automatic system that eliminates dangerous organisms in ballast water using advanced oxidation technology. Without using chemicals. Fully satisfies the new marine environmental requirements that will come into effect in 2009. This is an ecological solution that is sure to have reverberations.
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Robust control systems underpin governance of Alfa Laval

This is the third year in which Alfa Laval is presenting a detailed report on the company’s governance. It is a way of showing that the company fulfills the expected standards of good management and governance. This Corporate Governance Report enhances the company’s transparency, making it easier for shareholders and other stakeholders to assess the degree to which the company’s Board of Directors and senior management have lived up to the responsibility implied by the trust placed in them by the shareholders. It is also an appropriate way of demonstrating that the company’s nomination procedures, Annual General Meeting and Board of Directors meet high quality standards. The Report shows that there are robust control systems in place to secure shareholder influence over the company and the Board, and the supervision by the Board of the company’s most senior management.

During the year, Alfa Laval devoted further efforts to ensuring that its organization meets high ethical standards. In accordance with the Swedish Code of Corporate Governance, it is the Board’s duty to ensure that the necessary ethical guidelines for the company’s conduct are established. The Board has met this responsibility by ensuring that the company’s business principles are further developed and that it has articulated the overall values that Alfa Laval represents. The aim is that these principles and values will permeate the entire Alfa Laval organization, favorably influence its relationships with the principal stakeholders and help further strengthen confidence in Alfa Laval.

This Corporate Governance Report is based on the Swedish Code of Corporate Governance, according to which a corporate governance report must be included in the Annual Report.

Lund, March 2007
Anders Narvinger
Chairman of the Board

Corporate Governance at Alfa Laval

The diagram gives a general picture of corporate governance at Alfa Laval. The Annual General Meeting is the highest decision-making organ and annually appoints, among others, the members and chairman of the Board of Directors, based on proposals from the Nominating Committee. The Board’s responsibilities are regulated by the Swedish Companies Act, the Swedish Code of Corporate Governance and the Board’s formal work plan. The Board is responsible for the company’s long-term goals and strategy. The president manages the company’s operations and draws his closest support from a management group and from the managements of the divisions, to which responsibility and authority have been delegated. Alfa Laval has developed a number of business principles and fundamental values and implemented them in its organization to support the sound governance of the organization. This is a way of ensuring that the necessary ethical guidelines for the company’s conduct are established, which is a duty required of the Board of Directors by the Swedish Code of Corporate Governance. Alfa Laval’s business principles and values are described on the Alfa Laval website, www.alfalaval.com.

The company’s external auditors scrutinize the company, including the Annual Report. They also make a statement concerning the discharge of the Board from liability. The internal audit involves examination of a broad range of procedures and issues. The Corporate Governance Report, in accordance with the Swedish Code of Corporate Governance, gives a detailed description of how the different units for corporate governance within Alfa Laval act and interact.
Articles of Association
In accordance with Alfa Laval’s Articles of Association, the registered name of the company is Alfa Laval AB. The registered office of the Board of Directors of the company shall be in Lund municipality in Sweden. The company’s share capital shall amount to not less than SEK 745,000,000 and not more than SEK 2,980,000,000. The par value of each share shall be SEK 10. The fiscal year is the calendar year.

The objective of the company’s operations is, directly or through subsidiaries and joint-venture companies, in and outside Sweden, to develop, manufacture and sell equipment and installations, primarily within the areas of separation, heat transfer and flow technology, to administer fixed and movable property, and other related operations.

Alfa Laval’s Board of Directors shall comprise at least four and not more than ten members, with not more than four deputy members. The number of auditors shall be at least one and not more than two, with not more than two deputies. Auditors are appointed when necessary at the Annual General Meeting for the period until the close of the Annual General Meeting held during the fourth fiscal year after the election of auditors. Authorized public accountants or registered public accounting firms are appointed as auditors and, when applicable, deputy auditors.

In addition to the above information, the Articles of Association also contain rules concerning the procedures to be followed at Annual General Meetings. The Articles of Association are available in their entirety on the Alfa Laval website, www.alfalaval.com. Alfa Laval’s current Articles of Association were adopted at the Annual General Meeting held on April 27, 2006. These Articles are an update of the Articles of Association adopted on April 8, 2002, particularly as regards the paragraphs concerning share capital and the procedures involved in the Annual General Meeting. The update was necessary as a result of amendments to the Companies Act made on January 1, 2006.

Annual General Meeting
The Annual General Meeting (AGM) is the Alfa Laval Group’s highest decision-making body. According to Alfa Laval’s Articles of Association, the Annual General Meeting shall be held within six months of the close of the fiscal year in either Lund or Stockholm. Normally, the AGM takes place at the end of April or beginning of May each year in Lund.

The AGM for fiscal year 2005 was held in Lund on April 27, 2006. Lawyer Bertil Villard was elected as the meeting chairman. Following the President’s report, Board Chairman Anders Narvinger spoke about the Board’s activities and the Remuneration Committee’s work. Finn Rausing, Chairman of the Board’s Audit Committee, reported on the work of the Audit Committee. All the persons nominated to the Alfa Laval Board, except Ulla Litzén, were present at the meeting. The company’s auditors were represented by Ingvard Ganestam.

Decisions made at the 2006 Annual General Meeting
The most important decisions made at the 2006 Annual General Meeting were as follows:

• The AGM adopted the income statement and balance sheet, decided in favor of utilizing the company’s profits in accordance with the Board’s proposal to the effect that a dividend of SEK 5.10 per share be paid for 2005 and that the Board of Directors and president be discharged from liability.

• The AGM decided in accordance with the Nominating Committee’s proposal that the number of Board members shall be eight and that no deputies be appointed. At the 2004 AGM, two auditors and two deputy auditors were appointed, with their assignments extending until the fourth fiscal year after the election of auditors – in other words, up to and including the 2008 AGM.

• The AGM approved the Nominating Committee’s proposal that fees to the Board should be SEK 2,825,000.

• The AGM decided that remuneration of auditors shall be in accordance with invoices submitted.

• Election of members was in accordance with the Nominating Committee’s proposal of Anders Narvinger, Gunilla Berg, Björn Hägglund, Finn Rausing, Jörn Rausing, Lars Renström and Waldemar Schmidt. In accordance with the Nominating Committee’s proposal, Ulla Litzén was elected, replacing Lena Olving who had declined reelection. The AGM elected Anders Narvinger as Chairman of the Board.

• The AGM decided to amend the Articles of Association in accordance with the Board’s proposal. The decision was unanimous.

• The AGM adopted principles for compensation to, and other employment conditions for, company management.

• The AGM adopted criteria for appointing the Chairman and members of the Nominating Committee. A Nominating Committee must always be established to prepare and present proposals to the AGM pertaining to election of the Meeting Chairman, the Board Chairman, Board members and, when appropriate, the fees payable to Board members and auditors.

Extraordinary General Meetings
An Extraordinary General Meeting is held if the Board considers there is reason to do so. No Extraordinary General Meetings were held during 2006.

Nominating Committee
The Nominating Committee shall consist of not more than five members, who shall be representatives of the five largest shareholders at the close of the third quarter. The majority of the members of the Nominating Committee must not be Board members. At the close of the third quarter, the Board Chairman shall contact the company’s five largest shareholders. These are then entitled to appoint one member each to the Nominating Committee. In addition, the Nominating Committee can decide that the Board Chairman and one other Board member shall be part of the Nominating Committee. If any of the five shareholders abstains from the right to appoint a member, no more than the eight largest shareholders need be consulted, if this is required in order that the Nominating Committee consists of at least three members. The chairman of the Nominating Committee shall be a shareholder representative who may also be a Board member. The chairman of the Nominating Committee shall not be the Board Chairman. Individual shareholders shall be entitled to submit proposals for Board members to the Nominating Committee for further consideration within the framework of its work.

Information about the Nominating Committee’s composition shall be published in Alfa Laval’s interim report for the third quarter and on the company’s website not later than six months before the AGM.

The Nominating Committee has the right to charge costs to the company for engaging recruitment consultants if this is deemed necessary to achieve a proper selection of candidates for the Board.

The Nominating Committee shall report on its activities at the AGM.
Nominations for the 2007 Annual General Meeting
In accordance with a decision made at Alfa Laval AB’s AGM on April 27, 2006, the five major shareholders in Alfa Laval appointed the following members to the Nominating Committee prior to the 2007 AGM: Jörgen Rausing, Tetra Laval, Lars-Åke Bokenerber, AMF-Pension, Jan Andersson, Swedbank Robur Funds, Björn Franzon, Fourth AP-Fund and Kjell Norling, Handelsbanken. The chairman of the Nominating Committee is Jörgen Rausing. The Nominating Committee appointed the Board Chairman, Anders Narvinger, to be a member of the Nominating Committee and its secretary. Individual shareholders can submit proposals for Board members to any member of the Nominating Committee. For contact details, see Alfa Laval’s website.

Nomination process
The Nominating Committee meets as often as required to reach a consensus on proposals for the AGM. In advance of the 2007 AGM, the Nominating Committee met three times. As the basis for its work, information was analyzed regarding the company’s operations, financial and strategic development, the Board’s work during the fiscal year and the work of the Board’s Remuneration Committee. The evaluation of the Board’s work, conducted in accordance with the Swedish Code of Corporate Governance, was performed and presented by an external consultant. The Chairman of the Board reported on other circumstances affecting the Board’s work, such as the need for particular expertise that could be of importance for the nomination process. Candidates for the Nominating Committee are sought through recommendations, recruitment consultants and nomination proposals from shareholders. The proposal presented to the AGM was based on the parameters governing the work of the Nominating Committee, as defined above.

The Board and its work
The Board shall consist of eight members elected by the AGM, and no deputy members. The members are elected annually for the time until the conclusion of the next AGM. Four members and four deputies are appointed by the employees. Salaried employees within the company are invited to Board meetings as presenters and experts. The company’s president and chief financial officer participate in all meetings. The company’s chief legal counsel serves as Board secretary. The work of the Board is regulated by an annually updated formal work plan that sets the Board’s internal division of labor and meeting agenda. There is a special set of instructions for the president that, among other things, describes the financial reports to be presented to the Board to enable the latter to properly assess the financial situation on an ongoing basis.

For further information about the Board’s members, see pages 108-109.

The Board’s responsibilities
According to the Swedish Companies Act and the Board’s formal work plan, the Board is responsible for preparing and evaluating Alfa Laval’s overall, long-term strategies and objectives, adopting budgets and business plans, checking and approving financial statements, adopting key guidelines, making decisions on issues relating to acquisitions and divestments of operations and deciding on major investments and significant changes in Alfa Laval’s organization and operations.

The Board (through its Audit Committee) also procures auditing services and maintains ongoing contact with the company’s auditors. The Board appoints the president and defines the instructions the president must follow. The Board (through the Remuneration Committee) also determines salaries and remuneration to the president and members of executive management.

Present at Board meetings and committee meetings

<table>
<thead>
<tr>
<th>Member</th>
<th>Remuneration Committee</th>
<th>Audit Committee</th>
<th>Main Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>2 3</td>
<td></td>
<td>Anders Narvinger</td>
</tr>
<tr>
<td>9</td>
<td>- 3</td>
<td></td>
<td>Gunilla Berg</td>
</tr>
<tr>
<td>9</td>
<td>-</td>
<td>Björn Häglund</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>-</td>
<td>Ulla Litzén*</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>- 3</td>
<td></td>
<td>Finn Rausing</td>
</tr>
<tr>
<td>9</td>
<td>- 2</td>
<td>Jörgen Rausing</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>-</td>
<td>Lars Renström</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>-</td>
<td>Waldemar Schmidt</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>-</td>
<td>Per Olov Jacobsson</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>-</td>
<td>Susanna Norbry</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>-</td>
<td>Arne Kastö</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>-</td>
<td>Jan Nilsson</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>2 3</td>
<td>Number of meetings</td>
<td></td>
</tr>
</tbody>
</table>

Employee representatives

* Elected at the company’s Annual General Meeting on April 27 2006.

The Board’s formal work plan
The Board’s formal work plan is determined annually in a statutory meeting following the AGM.

The formal work plan describes the Board’s work assignments and the division of responsibility between the Board and the president. The formal work plan also prescribes that the Board shall have a Remuneration Committee and an Audit Committee, as well as defining the role of the Board Chairman.

The company president prepares an agenda for each meeting in consultation with the Board Chairman. Board members who wish to discuss a particular matter must inform the Board Chairman well in advance, so that the requisite information or documentation on which to base decisions can be prepared.

Notices of meetings, together with the meeting agenda and the requisite information or documentation on which to base decisions, shall reach Board members not later than seven days prior to the date of the meeting. Minutes from Board meetings shall be numbered, and all Board members shall receive copies. The original shall be stored in a safe manner by the company. This is the responsibility of the company president.

Matters discussed by the Board are by definition confidential, and every Board member is subject to a duty of confidentiality regarding matters that could harm the company.
Board Chairman
The Board Chairman directs the work in a manner that ensures its accordance with the Swedish Companies Act. The Chairman is also responsible for ensuring that the Board’s work is well organized and efficiently conducted, so that the Board fulfills its tasks.

In dialog with the company’s president, the Chairman monitors developments and is responsible for the other members receiving, on an ongoing basis, information necessary for Board work to be performed in the most effective manner. The Chairman is responsible for evaluating the Board’s work and participates in evaluation and development matters with respect to the Group’s senior executives.

The Chairman represents the company in ownership issues.

Independent Board members
All members of the Alfa Laval Board selected by the AGM are considered to be independent of the company, except Lars Renström, who is president and CEO of the company. Two members, Finn Raising and Jörgen Raising, are considered not to be independent of Tetra Laval, which, as at December 31, 2006, owned 17.68 percent of the shares. The other members are independent of the company’s largest shareholders. Board members have a duty to devote the necessary time and attention to their Board work and to possess the knowledge this requires, in order to further the company’s and its shareholders’ interests in the best possible manner.

Board work during 2006
Ten Board meetings were held during 2006, of which six were regularly scheduled meetings. The meetings normally lasted four hours. Board meetings normally take place in Lund. In four cases, meetings were held by circular.

The normal agenda items for Board meetings include earnings results, order trends, investments, acquisitions and shareholder developments. In addition to the normal agenda items, the Board meetings held during 2006 addressed the following matters:

• the company’s ongoing strategic direction
• review and revision of the company’s financial objectives
• asbestos-related lawsuits
• pension issues concerning senior executives
• audit planning
• overall funding.

Board decisions are made based on open discussion led by the Chairman. During the year, no dissenting opinion on any issue was entered in the minutes.

Audit Committee
A special Audit Committee was appointed at the 2006 AGM. Members of the Audit Committee are appointed annually within the Board. During 2006, the committee comprised Finn Raising (chairman), Gunilla Berg and Anders Narvinger. Alfa Laval’s General Counsel is the Committee secretary. During the year, the Audit Committee held three meetings averaging approximately three hours in length. Minutes are kept at all meetings of the Audit Committee and are distributed to Board members. The Audit Committee has the right to make decisions regarding the focus of the internal audit and the formulation of guidelines for financial reporting and follow-up. The Audit Committee also makes decisions, in consultation with the external auditors, regarding the focus of the external audit.

The Audit Committee’s work also includes continually monitoring the effectiveness of internal controls. The Committee’s duties also involve evaluation and discussion of significant issues within the areas of accounting and financial reporting.

The Audit Committee examines the procedures for reporting and financial controls, the auditors’ work, their qualifications and their independence. Its supervision also encompasses other key matters related to financial reporting. The Committee assists management in identifying and evaluating the primary operational risks and ensures that management directs its efforts to addressing these matters.

Remuneration Committee
Alfa Laval’s Remuneration Committee is appointed on an annual basis within the Board. During 2006, it comprised Anders Narvinger (chairman) and Jörgen Raising. The Remuneration Committee held two meetings during 2006. In addition, the Committee acts in conjunction with recruitment and is involved when other conditions of employment relating to the president or other members of Group Management require discussion.

Minutes are kept at all meetings of the Remuneration Committee and the contents are distributed to Board members.

The Remuneration Committee’s assignment is to handle matters relating to salary and employment conditions for the president and senior executives, who report directly to the president, and to propose principles regarding employment conditions for the executive management to be submitted to the AGM for approval.

Evaluation of the Board’s work
The Board evaluates its work on an ongoing basis through open discussions and interviews between the Board Chairman and individual Board members. In addition, the Board Chairman ensures that the work of the Board is evaluated annually. The evaluation of the Board’s work focuses on the Board’s work forms, work climate and the availability of and need for special Board expertise. Among other purposes, the evaluation serves to aid the Nominating Committee in its task of nominating Board members and proposing remuneration levels.

Remuneration to the Board
Remuneration to Board members elected at the AGM is determined by the AGM based on the proposals submitted by the Nominating Committee. Supplements are paid to the chairman of the Audit Committee and to members of the Audit Committee and the Remuneration Committee. No Board member is entitled to pension payments from the company.

The table below summarizes the remuneration received by all Board members from Alfa Laval for the period from the 2006 AGM until the 2007 AGM.

Remuneration to the Board
Compensation is fixed, with no variable element. There is no remuneration for Board members elected by the AGM who are employed in the company.

<table>
<thead>
<tr>
<th>Name</th>
<th>Main Board</th>
<th>Remuneration Committee</th>
<th>Audit Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anders Narvinger (Chairman)</td>
<td>725,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Gunilla Berg</td>
<td>300,000</td>
<td>0</td>
<td>50,000</td>
</tr>
<tr>
<td>Björn Hägglund</td>
<td>300,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ulla Litzén</td>
<td>300,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Finn Raising</td>
<td>300,000</td>
<td>0</td>
<td>100,000</td>
</tr>
<tr>
<td>Jörg Raising</td>
<td>300,000</td>
<td>50,000</td>
<td>0</td>
</tr>
<tr>
<td>Lars Renström</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Waldemar Schmidt</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2,525,000</td>
<td>100,000</td>
<td>200,000</td>
</tr>
</tbody>
</table>
Group Management
Alfa Laval’s executive management comprises 11 persons led by President Lars Renström, who is also CEO of the Alfa Laval Group. The president directs daily operations and is responsible for the Board receiving information and the necessary decisionmaking foundation. The president is responsible for ensuring that the company’s accounting complies with applicable laws and provisions.

Alfa Laval’s management group consists of the CEO and those individuals who, on the CEO’s recommendation, have been appointed by the Board. For further information about Group Management, see pages 110-111.

The persons in the management group are responsible both for their own areas of operation and, collectively, for the Group as a whole. The management group held 656 minuted meetings during 2006. In addition to minuted meetings of the management group, quarterly reviews of operations are held with the heads of divisions and geographical regions. These deal with the business situation, earnings, earnings projections for the upcoming 12 months and specific questions for the various components of operations.

Fixed and variable remuneration
The principles of remuneration to the president and other members of senior management are decided by the AGM. The principle used when deciding the remunerations to senior executives is that the remuneration is mainly based on a fixed monthly salary, with the option of a company car, and in addition, a variable remuneration in the form of a yearly bonus of between 15 and 60 percent of the fixed salary, depending on the position held. The size of the variable remuneration depends on the degree to which outcomes fulfill a number of established financial targets, and to a limited extent on qualitative objectives such as the outcome of certain special projects.

Compensation paid to Group Management in 2006 and 2005 is shown in the table below (SEK 000s).

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lars Renström, President</td>
<td>5,214</td>
<td>1,456</td>
</tr>
<tr>
<td>Other</td>
<td>18,700</td>
<td>3,200</td>
</tr>
</tbody>
</table>

For further information, see Note 3, page 73.

President and CEO Lars Renström currently has a base salary of SEK 5 M per year. He has a bonus provision with an upper limit of 60 percent.

Other senior executives comprise the ten members of Group Management other than the president. Their remuneration totals SEK 21.9 M (21.1), of which bonuses made up SEK 3.2 (2.4). The bonus figure relates to bonuses paid during the year.

Pensions
Company President Lars Renström does not have an agreement on early retirement. The ordinary ITP up to a salary of 30 base amounts is funded in order to achieve full ITP benefits at the age of 60. If Lars Renström continues to work for Alfa Laval after the age of 60, he will not receive any pension during the time he is still receiving salary. On top of the ordinary ITP, he has a defined-contribution benefit comprising 50 percent of the base salary.

New principles were adopted for future pension commitments for members of Alfa Laval’s management group. In accordance with these principles, and depending on their position, these persons will receive a premium-based pension commitment based on a retirement age of 62. Under this premium-based solution, premiums are paid from age 50 to age 62 corresponding to 15 percent of the base salary.

During 2006, Alfa Laval’s expenses for pension premiums totaled SEK 387.6 M (376.9).

Severance pay/Termination of employment
Alfa Laval has made commitments for severance pay to a limited group of senior executives. The commitments are restricted to a maximum amount corresponding to two annual salaries. The commitments define the conditions that must be fulfilled in order for a severance payment to be made.

Lars Renström will receive severance pay corresponding to two years’ salary in the event of notice of termination from the company prior to 58 years of age, which successively declines to six months’ salary at 60 years of age.

Financial reporting
The Board oversees financial reporting through instructions to the president. The Audit Committee prepares all the financial reports issued by the company, while the Board as a whole prepares the company’s quarterly reports and year-end report. The Audit Committee also handles quarterly risk reporting and information about risk assessments, legal disputes and any irregularities that may occur.

Policy documents
As governance instruments, the Board has decided on a number of policy documents, which are to be used in daily work within the company. Examples of such documents include the Board’s procedural rules, the president’s instructions, reporting instructions, business principles, investment policy, finance policy and communication policy. The Board annually checks that these instructions and policies remain relevant and up-to-date.

Internal controls
The Board is responsible for the company’s internal controls, the overall purpose of which is to protect shareholders’ investments and the company’s assets. The Board as a whole received reports from the company’s external auditors at one Board meetings during 2006. In addition, the Board’s Audit Committee received reports from the company’s external auditors on three occasions.

On one occasion, the Board received reports from the company’s external auditors without the president or any other representative of executive management being present.

The internal audit team took part in all meetings with the Audit Committee.

For further information about internal controls, see the Board’s report on internal controls given below in the Corporate Governance Report. It describes the control environment, risk assessment, control activities, information and communication, and the supervision of the internal control system.

Internal audit
The internal audit consists of two auditors supplemented by internal specialist company resources and auditors from the KPMG organization for internal auditing.

During 2006, 27 internal audits were carried out. The audits encompassed a broad spectrum of functions and areas of inquiry. The scope was determined by the Board and involved examining, for example:

- efficiency within the current units
- the processes that ensure that the principles for best practice are applied and that the controls that have been systematically built in are relevant
- the existence of systems to ensure that financial transactions are implemented, archived and reported in an accurate and lawful manner
- the systems and processes established by the management group to ensure that business operations are conducted in accordance with the policies and procedures that management has established.
Opportunities to improve management control, the company’s profitability and the organization’s image may be identified during audits.

The internal audit team reports to the Audit Committee on the results of the audits performed. On these occasions, the planning parameters for the next six to eight months are also established. The internal audit team also distributes reports from individual audits to the Group Management members concerned. To ensure that concrete effects result from the internal audits, a procedure for continuous follow-up of agreed measures has been established.

**Risk management**
Alfa Laval’s risk management processes are explained in the Risk management section on pages 65-69 of the Annual Report.

**Audits and auditors**
The 2004 AGM gave a renewed mandate to auditor Ingvar Ganestam and newly elected auditor Kerstin Mouchard. Both are elected until the 2008 AGM. As deputy auditors, the 2004 AGM reelected Håkan Olsson and newly elected Thomas Swenson, who are both elected until the 2008 AGM. All are authorized public accountants with Ernst & Young AB.

Ingvar Ganestam, born in 1949, has been an auditor for Alfa Laval since 2000. Kerstin Mouchard, born in 1952, has been an auditor for Alfa Laval since 2004. Håkan Olsson, born in 1961, has been a deputy auditor for Alfa Laval since 2000. Thomas Swenson, born in 1957, has been an auditor for Alfa Laval since 2004.

In Alfa Laval’s judgment, none of these auditors has any relationship to Alfa Laval, or a company close to Alfa Laval, that could affect their independent status in relation to the company. All of the auditors also possess the requisite competence to be able to execute their assignment as auditors for Alfa Laval.

**Remuneration of auditors (see note no. 4 on page 74)**
An audit assignment involves examining the Annual Report, evaluating the accounting principles employed, making significant judgments concerning corporate management, evaluating the general presentation in the Annual Report and conducting an overall review of the interim report for the third quarter. It also involves a review on which to base a decision on discharging the Board from liability. Any other tasks performed are defined as other assignments.

As an extension of our auditing assignment, which has now been completed as a result of our Audit Report dated March 1, 2007, we have reviewed the Corporate Governance Report (pages 99-106, 108-111) for Alfa Laval AB for 2006 at the request of the Board of Directors. Based on our review, nothing has come to our attention that causes us to believe that the Corporate Governance Report does not comply with the guidelines contained in the Swedish Code of Corporate Governance.

Lund, March 1, 2007

Ingvar Ganestam  
Kerstin Mouchard  
*Authorised Public Accountant*  
*Authorised Public Accountant*

**Board of Directors’ report on internal control for fiscal year 2006**
The Board’s description of the internal control.

**Control environment**
Effective work by the Board forms the foundation for good internal control. The Board has established clearly defined processes and priorities for its work and the Board’s committees. An important part of the Board’s work is to formulate and approve fundamental rules and guidelines. These include Finance Policy, Business Principles, Rules for Investment Decisions, Financial Reporting Requirements and Communications Policy. These rules and guidelines are intended to create the foundation for good internal control. They are revised and updated continuously as the need arises. The Board has also ensured that the organizational structure is logical and transparent, with clearly defined roles, responsibilities and processes that facilitate effective management of operational risks and enable the company to fulfill its goals. The responsibility structure includes evaluations by the Board of business performance and results through a purpose-adapted package of reports that contain results, forecasts and analyses of important key factors. The Audit Committee has meetings with the internal audit team, the external auditors and various specialists in senior management and support functions. The Board receives reports on these meetings.

The Audit Committee’s work includes efforts to continuously monitor the effectiveness of internal controls. Its work also includes evaluations and discussions of important issues in the areas of financial accounting and reporting.

Group Management maintains and manages the system of internal controls needed to manage significant risks in ongoing business operations.

This work includes ensuring that there are appropriate rules and guidelines for such areas as HR matters, staffing and skills development.

Management’s responsibility also includes a commitment to active efforts to ensure that all employees understand the requirement for, and the individual’s role in, maintaining effective internal control.

**Risk assessment**
The framework for ongoing business operations and follow-up includes procedures for risk assessment and thus also for ensur-
ing the production of accurate financial reporting. These procedures include, for example, the following areas:

- Risk assessments related to strategic planning, forecasts and acquisition activities that are intended to identify events in the market or in business operations that could, for example, lead to changes in valuations of assets currency exchange rate effects on earnings.
- Processes to track changes in accounting regulations that ensure that these changes are implemented correctly in the financial reporting.

**Control structures**

The control structures have been designed to manage risks that the Board and management consider to be significant for business operations, internal control and financial reporting. The control structures consist, firstly, of an organization with clearly defined roles that support an effective, and from an internal control perspective, appropriate division of responsibility, and secondly, specific control activities that are intended to discover or prevent the risk of errors in the reports.

Examples of control activities include clearly defined decision-making processes and priorities for important decisions (investments, agreements, acquisitions, divestments, etc.), earnings analyses and other forms of analytical follow-up, reconciliations, inventory-taking and automatic controls in the key IT systems related to financial reporting.

**Information and communication**

The company’s main control documents in terms of regulations, guidelines and manuals, to the extent they are related to financial reporting, are updated continuously and communicated via the intranet, memorandums, internal meetings, etc. The effectiveness of this communication is monitored continuously to ensure reception of the information. There are also formal and informal information channels that enable employees to communicate important information to relevant recipients and ultimately, if necessary, to the Board of Directors.

A clearly defined policy has been formulated for communication with external interests, including guidelines for modes of communication. The policy is intended to ensure accurate and complete compliance by all persons responsible for the dissemination of information.

**Follow-up**

The internal control process is monitored mainly by three entities outside the line organization: the Audit Committee, External Audit and Internal Audit. The Audit Committee establishes the principles that apply for the company with respect to accounting and financial reporting, and monitors compliance with these regulations.

The Audit Committee meets with the external auditors regularly to secure information about the focus and scope of the audit and to discuss results and coordination of the external and internal audits.

The Committee also establishes the direction, extent and time schedules for the internal audit team’s work. The internal audit team reports the results of its audits to the Audit Committee at the latter’s meetings. Results of the audit reviews are also reported continuously to Group management so that any necessary measures may be taken.

The extent of the internal audit includes operational efficiency, compliance with regulations and guidelines and the quality of financial reporting from the subsidiaries.

In accordance with the recommendation regarding Board reporting on internal control for 2006 issued by the Swedish Corporate Governance Board on September 5, 2006, this report comprises only a description of how internal control is organized without expressing an opinion on how well it functions.

*Lund, March 2007*

*Board of Directors*
Anders Narvinger
Chairman since 2003.

Gunilla Berg
Board member since 2004.

Björn Hägglund
Board member since 2005.
Born: 1945. Former positions include Deputy CEO of Stora Enso. Education: PhD. (For.). Board Chairman of Swedish Industrial Institute for Economics and Social Research and Worldwide Fund for Nature (WWF), Sweden. Board member of Bergvik Skog AB, Karl Hedins AB, SweTree Technologies AB, the Knut and Alice Wallenberg Foundation and Mistra. Vice Chairman at IVA (Royal Academy of Engineering Science). Independent of company and major shareholders.

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Ulla Litzén
Board member since 2006.
Born: 1956. Previously President of W Capital Management and held various senior positions at Investor. Education: BSc. Econ from the Stockholm School of Economics, MBA from the Massachusetts Institute of Technology. Board member of Atlas Copco AB, Boliden AB, Kato Bio AB, Posten AB and SKF AB. Independent of company and major shareholders. Number of shares in Alfa Laval: 2,400* (0**).

Finn Raising
Board member since 2000.

Jörn Raising
Board member since 2000.

Lars Renström
Board member since 2005.
Born 1951. President and CEO of Alfa Laval. Education: BSc. Eng., BSc. Econ. Board member of Proffilgruppen AB. Independent of major shareholders. Number of shares in Alfa Laval AB: 10,100* (10,000**).

Waldemar Schmidt
Board member since 2000.

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Waldemar Schmidt
Board member since 2000.

### Employee representatives

- **Per Olof Jacobsson**
  - *Employee representative since 2003.*
  - Born: 1942.
  - Employed by Alfa Laval since 1969. Employee representative for the Association of Management and Professional Staff (Ledarna).

- **Arne Kastó**
  - *Employee representative since 2000.*
  - Born: 1948.

- **Jan Nilsson**
  - *Employee representative since 2000.*
  - Born: 1952.
  - Employed by Alfa Laval since 1974. Employee representative for the Swedish Metal Workers Union (Metall).

- **Maria Fröberg**
  - *Deputy member since 2005.*

- **Susanna Norrby**
  - *Employee representative since 2003.*
  - Alfa Laval employee since 1992. Employee representative for the Swedish Association of Graduate Engineers (CF).

### Deputy employee representatives

- **Britt Ekman**
  - *Deputy member since 2005.*
  - Employed by Alfa Laval since 1999. Deputy employee representative for the Swedish Association of Graduate Engineers (CF).

- **Kalevi Ejendal**
  - *Deputy member since 2000.*
  - Born: 1951.

- **Stefan Sandell**
  - *Deputy member since 2005.*
  - Employed at Alfa Laval since 1989. Deputy employee representative for the Association of Management and Professional Staff (Ledarna).

### Auditors

- **Ingvar Ganestam**
  - Authorized Public Accountant, Ernst & Young AB, Malmö.
  - Born: 1949.
  - Auditor for Alfa Laval since 2000. Reelected auditor at 2004 Annual General Meeting. Ingvar Ganestam has years of experience in auditing exchange-listed companies and among other assignments is auditor for Notato AB, Strålfors AB and the IKEA Group.

- **Kerstin Mouchard**
  - Authorized Public Accountant, Ernst & Young AB, Malmö.
  - Born: 1952.
  - Auditor for Alfa Laval since 2004. Elected as auditor at the 2004 Annual General Meeting. Kerstin Mouchard has years of experience in auditing exchange-listed companies and among other assignments is auditor for Cardo AB and Strålfors AB.

### Deputy auditors

- **Håkan Olsson**
  - Authorized Public Accountant, Ernst & Young AB, Malmö.
  - Deputy auditor for Alfa Laval since 2000.

- **Thomas Swensson**
  - Authorized Public Accountant, Ernst & Young AB, Malmö.
  - Born: 1957.
  - Deputy auditor for Alfa Laval since 2004.
Lars Renström  
**President and CEO.**  
Born: 1951.  
CEO since October 1, 2004.  
Joined Alfa Laval from Seco Tools AB, where he was President and CEO from 2000 to 2004. Previously served as a division manager at Ericsson AB and Atlas Copco AB.  
Board member of Profi grouppen AB.  
Education: BSc. Eng. and BSc. Econ.  
Number of shares: 10,100* (10,100**).

Thomas Thuresson  
**Executive Vice President, Chief Financial Officer.**  
Born: 1957.  
Employed by Alfa Laval since 1988.  
CFO since 1995.  
Previous assignments include Controller of Flow business area and Group Controller of the Alfa Laval Group.  
Board member of Dynapac AB.  
Education: BSc. Econ. (IMD, BPSE)  
Number of shares: 40,000* (45,000**).

Göran Mathiasson  
**President, Operations Division.**  
Born: 1953.  
Employed by Alfa Laval since 1979.  
President of the Operations Division since April 2003.  
Previously in charge of Alfa Laval Manufacturing and Thermal Technology.  
Number of shares: 5,647* (8,647**).

Svante Karlsson  
**President, Equipment Division.**  
Born: 1955.  
Employed by Alfa Laval since 1984.  
President of the Equipment Division since 2001.  
Former head of the Thermal business area and President of Marine & Power.  
Education: BSc. Econ.  
Number of shares: 30,686* (37,486**).

Ulf Granstrand  
**President, Process Technology Division.**  
Employed by Alfa Laval since 1975.  
President of the Process Technology Division since 2003. Previously responsible, among other roles, for the Operations Division, parts of the regional sales operations and the Thermal business area.  
Board member of Exirgruppen AB.  
Number of shares: 59,672* (73,572**).

Peter Leifl and  
**Executive Vice President in charge of the Western Europe and North America Region.**  
Born: 1954.  
Employed by Alfa Laval since 1985.  
Peter Leifl and has been a regional manager since 1999. Formerly President of Alfa Laval International Engineering AB.  
Board member of Observer AB.  
Education: Bachelor of Laws, lic. spec., IMD (PED).  
Number of shares: 116,716* (116,716**).

Lars Henriksson
**Executive Vice President in charge of the Central and Eastern Europe and Latin America Region.**
Born: 1955.
Employed by Alfa Laval since 1977. Responsible for the Central and Eastern Europe and Latin America Region since September 1, 2004. Prior to this he was President of Alfa Laval Inc. in Canada and held executive positions for Alfa Laval in Sweden, Spain and Brazil.
Number of shares: 9,000* (9,000**).

Ray Field
**Executive Vice President in charge of the Asia, Oceania and Middle East Region.**
Born: 1954.
Employed by Alfa Laval since 1985. Responsible for the Asia, Oceania and Middle East Region since September 1, 2004. Prior to this, he served as President of Alfa Laval China for slightly more than 10 years.
Number of shares: 13,647* (13,647**).

Jesper Bulskov
**Senior Vice President, Human Resources.**
Born: 1956.
Previously responsible for personnel matters at Gate Gourmet Int. and Rockwool, among other companies.
Education: BSc. Econ.

Nils Olof Björk
**Senior Vice President, Corporate Development.**
Employed by Alfa Laval since 1975. Responsible for Corporate Development since 2002. Previous positions include head of Thermal in Canada, Marketing Director of Alfa Laval in Lund, head of Alfa Laval in Asia, Hong Kong, and President of Alfa Laval, Japan.
Board member of Österlens Kraft AB.
Education: PhD., Chemistry
Number of shares in Alfa Laval AB: 9,944* (15,944**).

Peter Torstensson
**Senior Vice President, Corporate Communications.**
Born: 1955.
Employed by Alfa Laval since 1999.
Senior Vice President, Corporate Communications since 1999. Formerly President of Borstahusen Informationssystem. Member of Advisory Board for Bona Kemi AB.
Number of shares in Alfa Laval AB: 19,000* (24,000**).